

Message Text

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ACTION DLOS-09

INFO OCT-01 IO-13 ISO-00 AF-10 ARA-06 EA-07 EUR-12
NEA-10 ACDA-07 AGRE-00 AID-05 CEA-01 CEQ-01 CG-00
CIAE-00 EPG-02 COME-00 DODE-00 DOTE-00 EB-07
EPA-01 ERDA-05 FEA-00 FMC-01 TRSE-00 H-01 INR-07
INT-05 JUSE-00 L-03 NSAE-00 NSC-05 NSF-01 OES-07
OMB-01 PA-01 PM-04 PRS-01 SP-02 SS-15 USIA-06
OIC-02 ABF-01 /160 W
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P 061456Z JUN 77
FM USMISSION USUN NEW YORK
TO SECSTATE WASHDC PRIORITY 3882

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FROM LOS DEL

E.O. 11652: N/A
TAGS: PLOS
SUBJECT: LOS SITREP-JUNE 3, 1977

1. COMMITTEE I: MEXICO'S PROPOSAL TO PROMOTE JOINT
VENTURES BETWEEN ENTERPRISE AND STATE PARTIES (SEE
JUNE 2 SITREP) RECEIVED MIXED REVIEWS FROM BOTH WITHIN
AND WITHOUT THE G-77 DURING DEBATE JUNE 3. LATER IN THE
DAY, THE US (RICHARDSON) AND INDIA (BHUSHAN) TABLED PAPERS
DEALING WITH FINANCIAL ARRANGEMENTS FOR CONTRACTORS AND
FINANCING THE ENTERPRISE. JUDGING FROM THE EVENING DEBATE,
THE G-77 IS NOT YET READY TO DELVE INTO FINANCING DETAILS.
EVENSEN IS DRIVING THE COMMITTEE I WORKING GROUP SO HARD
(HE HELD THREE SESSIONS AGAIN FRIDAY), THAT THE G-77
HAS NOT HAD AN OPPORTUNITY TO CAUCUS FREQUENTLY AND CLOSE
RANKS BEHIND COMMON POSITIONS. A WELCOME CONSEQUENCE IS THAT
DEVELOPING COUNTRY INTERVENTIONS HAVE OFTEN
REFLECTED DISPARATE PERSONAL OR NATIONAL PERSPECTIVES
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INSTEAD OF BLOC POSITIONS.

2. INDIA AND SINGAPORE SUPPORTED THE MEXICAN PROPOSAL,
WHICH WOULD GIVE THE AUTHORITY DISCRETION TO REQUIRE STATE
SPONSORED MINERS TO ENTER A JOINT VENTURE WITH THE ENTER-
PRISE FOR EXPLOITING A RESERVED SITE IN RETURN FOR
THE RIGHT TO EXPLOIT A CORRESPONDING CONTRACT SITE.

THE INDIAN ENDORSEMENT INDICATED A SOFTENING OF THEIR FORMER POSITION, WHICH FAVORED A MORE RIGID STAGGERED ACCESS SYSTEM (I.E., ALTERNATING EXPLOITATION OF STATE AND ENTERPRISE SITES). BRAZIL, GUATEMALA, SOUTH KOREA, PAKISTAN, SENEGAL, ALGERIA AND MAURITIUS ALL RAISED RESERVATIONS ABOUT THE MEXICAN SCHEME. BRAZIL (THOMPSON FLORES), FOR EXAMPLE, VOICED CONCERN THAT THE ENTERPRISE MIGHT EXPLOIT ALL THE BANKED SITES, PRECLUDING DIRECT DEVELOPING COUNTRY (E.G. BRAZILIAN) OPERATIONS. OTHER SPEAKERS WORRIED ABOUT POSSIBLE OVER-DEVELOPMENT BY THE ENTERPRISE AND MULTINATIONALS GAINING CONTROL OF BOTH SIDES OF THE PARALLEL SYSTEM. AMONG INDUSTRIAL COUNTRIES, THE FRG (KNOKE) AND UK (LOGAN) PROMISED TO "STUDY" THE MEXICAN PROPOSAL, WHILE THE NETHERLANDS INDICATED CONCERN ABOUT GIVING THE AUTHORITY TOO MUCH DISCRETION.

3. AMB. RICHARDSON DELIVERED A LENGTHY STATEMENT ON FINANCING, DEALING WITH BOTH ENTERPRISE START-UP AND REVENUE SHARING (FULL TEXT POUCHED). HE REITERATED US INSISTENCE ON ASSURED ACCESS FOR STATE-SPONSORED PARTIES AND A REGIME THAT DOES NOT DISCOURAGE SEABED INVESTMENT AS A QUID PRO QUO FOR AGREEMENT ON FINANCIAL PROVISIONS. HE CHIDED THE GROUP FOR SEEMING TO FOCUS ON "HOW BEST TO DESIGN A SYSTEM OF NON-EXPLOITATION." CONTINUING, HE REGRETTED THE TENDENCY OF THE CONFERENCE TO BE "MORE CONSERVATIVE IN OUR PROTECTIONISM THAT CREATIVE IN OUR QUEST; OFTEN MORE BACKWARD IN OUR GLANCE THAN FORWARD IN OUR VISION; OFTEN MORE HESITANT FOR OUR FEAR

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THAT CONFIDENT IN OUR HOPE."

4. ON REVENUE SHARING, RICHARDSON SUGGESTED MINIMIZING FRONT END FEES, AND ALLOWING EACH STATE-SPONSORED OPERATOR TO SELECT EITHER PROFIT SHARING OR ROYALTY PAYMENTS. UNDER THE PROFIT SHARING FORMULA, THE AUTHORITY WOULD RECEIVE 15-50 PERCENT OF NET PROCEEDS, DEPENDING ON THE OPERATOR'S RATE OF RETURN. THE ROYALTY WOULD APPLY TO THE IMPUTED VALUE OF MINED NODULES, SPECIFIED AS ONE-FIFTH THE GROSS FAIR MARKET VALUE OF THE PROCESSED METALS. A FIXED ROYALTY RATE OF 10 PERCENT WOULD BE IN EFFECT FOR THE FIRST TEN YEARS OF COMMERCIAL PRODUCTION, RISING TO 50 PERCENT THEREAFTER. (NOTE: THE EFFECTIVE ROYALTY RATES ARE 2 PERCENT AND 10 PERCENT OF THE MARKET VALUE OF THE PROCESSED METALS). RICHARDSON ESTIMATED THAT EITHER PAYMENT SYSTEM WOULD RESULT IN REVENUES TO THE AUTHORITY OF \$5-10 MILLION PER SITE IN THE EARLY YEARS OF COMMERCIAL PRODUCTION, AND \$25-35 MILLION IN LATER YEARS.

5. REVENUE SHARING IN THE EARLY YEARS WOULD BE INSUFFICIENT TO FINANCE THE START-UP OF THE ENTERPRISE, HE SAID, THUS REQUIRING A SUPPLEMENTAL SYSTEM OF GOVERNMENT-BACKED DEBT. THE GOVERNMENT GUARANTEES WOULD BE APPORTIONED AMONG MEMBER STATES ACCORDING TO THE UN SCALE OF ASSESSMENTS, AND COULD INCLUDE A REQUIREMENT FOR EACH STATE TO ADVANCE UP TO 10 PERCENT OF ITS CONTINGENT LIABILITY ON A REFUNDABLE BASIS. THE \$500-750 MILLION FINANCING PROGRAM WOULD COVER THE COSTS OF THE INITIAL SITE, BUT IF THE ENTERPRISE SEEKS TO FORM SEVERAL JOINT VENTURES WITH CONTRACTORS, THE GUARANTEES MIGHT BE APPORTIONED OVER SEVERAL SITES, RICHARDSON SAID.

6. INDIA'S REVENUE SHARING PROPOSAL IS CONSIDERABLY MORE STRINGENT THAN THE US: UNDER IT THE APPLICANT WOULD PAY:
--APPLICATION FEE OF \$100,000;
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--MINING RIGHT CHARGE: \$1 PER TON OF DRY NODULES ALLOWED TO BE RECOVERED, DEPOSITED WITHIN ONE MONTH AFTER AWARDING CONTRACT (APPROX. \$60 MILLION).
--ROYALTY AT RATE OF \$5 PER TON OF DRY NODULES MINED
-- TAX AT RATE OF 20 PERCENT OF GROSS SALES REVENUE FROM PROCESSED METALS;

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FROM LOSDEL

--AFTER CONTRACTOR'S TOTAL RETURN IS 200 PERCENT OF CAPITAL INVESTMENT, FUTURE NET PROCEEDS WOULD BE DIVIDED: 60 PERCENT TO AUTHORITY, 40 PERCENT TO CONTRACTOR.

7. INDIA WOULD PERMIT THE AUTHORITY TO REDUCE TAXES AND ITS SHARE OF NET PROCEEDS IN ORDER TO ENCOURAGE CONTRACTORS TO UNDERTAKE ASSOCIATIONS WITH LDC'S, TRANSFER TECHNOLOGY, ETC. FINALLY, THE AUTHORITY WOULD HAVE FLEXIBILITY TO REACH CONTRACTURAL ARRANGEMENTS BETWEEN THE ENTERPRISE AND STATE-SPONDORED OPERATORS FOR EXPLOITATION OF RESERVED SITES.

8. BOTH THE US AND INDIAN PROPOSALS WILL REQUIRE CONSIDERABLE EVALUATION BEFORE DELEGATES ARE PREPARED TO MAKE DETAILED CRITIQUES. IN THE EVENING SESSION, ALGERIA (ALOUANE) DISMISSED THE ISSUE OF ENTERPRISE FINANCING AS SECONDARY TO THE CENTRAL PROBLEM OF TECHNOLOGY TRANSFER. JAMAICA (RATTRAY) OFFERED HELPFUL COMMENTS

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THE ENTERPRISE FINANCING QUESTION, POINTING UP THE NEED FOR A BALANCED FINANCING PACKAGE INCLUDING GOVERNMENT GUARANTEES, AND THE NEED FOR THE ENTERPRISE INITIALLY TO COLLABORATE WITH STATE-SPONSORED CONTRACTORS.

LEONARD

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